“Why the Constant Failure to Attract FDI to Macedonia?”

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ABSTRACT

Macedonia is consistently at the bottom of the state-recipients of Foreign Direct Investment (FDI) in Europe. The author argues that the reasons are not mainly its kleptocratic governments and rampant corruption, its geopolitical risk, and its lack of modern infrastructure. He identifies the principal causes as an all-pervasive failure of institutions; lack of commitment to true reforms; absence of a functioning private sector; problematic mentality (laziness, passive-aggressiveness, xenophobia, resistance to learning, etc.); a low-level of research-and-development and innovation; an antiquated and dysfunctional education system; and primitive banking system and capital markets. While not a failed state in the political sense of the word, the author suggests that Macedonia constitutes a prime example of a “failed economy.”

LECTURE NOTES

1. General Overview of FDI

The role of foreign direct investment (FDI) in promoting growth and sustainable development has never been substantiated. There isn't even an agreed definition of the beast. In most developing countries, other capital flows - such as remittances - are larger and more predictable than FDI and ODA (Official Development Assistance).

Several studies indicate that domestic investment projects have more beneficial trickle-down effects on local economies. Be that as it may, close to two-thirds of FDI is among rich countries and in the form of mergers and acquisitions (M&A). All said and done, FDI constitutes a mere 2% of global GDP.

FDI does not automatically translate to net foreign exchange inflows. To start with, many multinational and transnational "investors" borrow money locally at favourable interest rates and thus finance their projects. This constitutes unfair competition with local firms and crowds the domestic private sector out of the credit markets, displacing its investments in the process.

Many transnational corporations are net consumers of savings, draining the local pool and leaving other entrepreneurs high and dry. Foreign banks tend to collude in this reallocation of

financial wherewithal by exclusively catering to the needs of the less risky segments of the business scene (read: foreign investors).

Additionally, the more profitable the project, the smaller the net inflow of foreign funds. In some developing countries, profits repatriated by multinationals exceed total FDI. This untoward outcome is exacerbated by principal and interest repayments where investments are financed with debt and by the outflow of royalties, dividends, and fees. This is not to mention the sucking sound produced by quasi-legal and outright illegal practices such as transfer pricing and other mutations of creative accounting.

Moreover, most developing countries are no longer in need of foreign exchange. "Third and fourth world" countries control three quarters of the global pool of foreign exchange reserves. The "poor" (the South) now lend to the rich (the North) and are in the enviable position of net creditors. The West drains the bulk of the savings of the South and East, mostly in order to finance the insatiable consumption of its denizens and to prop up a variety of indigenous asset bubbles.

Still, as any first year student of orthodox economics would tell you, FDI is not about foreign exchange. FDI encourages the transfer of management skills, intellectual property, and technology. It creates jobs and improves the quality of goods and services produced in the economy. Above all, it gives a boost to the export sector.

All more or less true. Yet, the proponents of FDI get their causes and effects in a tangle. FDI does not foster growth and stability. It follows both. Foreign investors are attracted to success stories, they are drawn to countries already growing, politically stable, and with a sizable purchasing power.

Foreign investors of all stripes jump ship with the first sign of contagion, unrest, and declining fortunes. In this respect, FDI and portfolio investment are equally unreliable. Studies have demonstrated how multinationals hurry to repatriate earnings and repay inter-firm loans with the early harbingers of trouble. FDI is, therefore, partly pro-cyclical.

What about employment? Is FDI the panacea it is made out to be?

Far from it. Foreign-owned projects are capital-intensive and labour-efficient. They invest in machinery and intellectual property, not in wages. Skilled workers get paid well above the local norm, all others languish. Most multinationals employ subcontractors and these, to do their job, frequently haul entire workforces across continents. The natives rarely benefit and when they do find employment it is short-term and badly paid. M&A, which, as you may recall, constitute 60-70% of all FDI are notorious for inexorably generating job losses.

FDI buttresses the government's budgetary bottom line but developing countries invariably being governed by kleptocracies, most of the money tends to vanish in deep pockets, greased palms, and Swiss or Cypriot bank accounts. Such "contributions" to the hitherto impoverished economy tend to inflate asset bubbles (mainly in real estate) and prolong unsustainable and pernicious consumption booms followed by painful busts.

2. **Macedonia as a Failed Economy**

Macedonia is consistently at the bottom of the state-recipients of Foreign Direct Investment (FDI) in Europe. Why?

The classic reasons given (for instance, by the World Bank) for Macedonia's failure to attract FDI are:

a. Kleptocratic governments and rampant corruption
b. Geopolitical risk
c. Lack of modern infrastructure.

I argue that these reasons are both unnecessary and insufficient. I identify countries in the region with identical problems and large and increasing FDI.

I suggest the following as the principal causes:

a. All-pervasive failure of politicized institutions (from official statistics to the judiciary);
b. Lack of commitment to true reforms owing to deep vested interests;
c. Absence of a functioning private sector;
d. Problematic mentality (indolence, passive-aggressiveness, pathological envy, xenophobia, resistance to learning, etc.);
e. Low-level of research-and-development and innovation;
f. Antiquated and dysfunctional education system which fails to respond to market needs;
g. Primitive banking system and capital markets.

While not a failed state in the political sense of the word, the author suggests that Macedonia constitutes a prime example of a "failed economy."

3. **More on Resistance to Learning and Favouritism as Major Barriers to FDI**

Macedonians are marked by their resistance to learning from others. Now that the West is mired in multiple troubles and failures, they feel that their way of life and their mentality, their choices and their policies have been vindicated and are superior to the West's. Smug hubris is everywhere I look. Add to this access to the Internet, this great equalizer of the stupid, and everyone in Macedonia holds himself or herself to be a genius and not in need of further edification.

This rejection of learning, training, skilling, and expertise has deep historical roots.

In the paranoid and surrealistic landscape of the former socialist Bloc, to admit to ignorance is to publicly acknowledge a deficiency, a personal defeat, and a shortcoming. It is to hand your foes a weapon. It is not only a narcissistic injury (and that it is), but also a guaranteed professional suicide. I have yet to hear anyone in Macedonia utter the magic words: "I don't know".

Thus, in the interest of self-preservation, it is more advisable to invent "facts" than to search for them; to claim education than to seek it; and to feign erudition than to acquire it. Ill-

informed professors pass on their half-baked notions and inane "theories" from one molested generation to another in a vast conspiracy aided by the lack of access to foreign texts and outside experts.

Insecurity bred by nescience yields conformity and rigid "conservatism". Toeing the line is a survival strategy, not rocking the boat a religious principle, the boorish quid pro quo of Luddites, quacks, and conspiracy theorists the only form of "higher education".

Inevitably, as a purely defensive posture, a monopoly of "learning" has emerged. Real knowledge, propounded by genuine (typically, Western) experts and managers threatens to unravel this unholy cartel, counteract the vested interests it reifies, and shatter the ersatz "scholarship" it is founded upon. Hence the fierce objection to any outside "interference" and "intrusion". Provincialism and obscurantism are elevated to the level of an ideology.

Nor is there a grassroots movement of minds eager for intellectual enlightenment and cross-fertilization. Education is a loss-making proposition. Formal training goes unrewarded in Macedonia. Nepotism and cronyism reign supreme. One's advancement, future prospects, and career depend on one's connections or family of origin. One's peers are perforce disqualified to judge one's progress and accomplishments, having been educated by the same inapts and oil snake salesmen that here pass for "professors" and “businessmen”. Indeed, why bother with textbooks and exams when "social networking" gets you places faster and far more securely?

4. EU Accession as Panacea

The EU is in the throes of a life-threatening crisis and the entire enlargement project is in ever-growing doubt. Even if the EU were to emerge unscathed from this predicament, its harried officials still regard the Western Balkans as a cesspit, an Ottoman-Byzantine-Oriental Muslim-infested relic in the heart of an otherwise civilized, genteel, and Christian Europe (read: West). The more bigoted of the EU members are going to drag the negotiations with the likes of Macedonia as they have been doing with Turkey for decades now.

Macedonia currently enjoys all the benefits of EU membership without incurring any of its costs: it has free trade, visa-free travel, and access to regional development funds and EU tenders. The costs of accession are bound to be crippling: Macedonia’s sheltered and inefficient industries will crumble in the face of European competition; its judiciary and legislature will be buried under the 84,000 pages of the acquis communautaire; environmental, sanitation, and labour rules will render the private sector, such as it is in this benighted place, all but dysfunctional and insolvent; brain drain will likely reach epic proportions. Macedonia is not ready for EU accession. For the time being, it is better off as it is.

In the long-term, accession will bring with it sizable benefits in the transfer of technological knowledge and management skills and in encouraging foreign direct investment. But these welcome side-effects and by-products of EU membership depend crucially on an all-pervading internal transformation. Macedonians lack the skills, the knowledge, the emotional maturity, and the cultural background to have a state of their own, let alone a democracy. They have yet to develop a sense of being part of a cohesive collective. Their rampant individualism is malignant and they all perceive the state and any form of authority as potential and actual enemies.

So, why are Macedonians so keen on joining the EU?

Some of them hope to turn a quick profit as asset prices (shares, real-estate) react to the good news. Others can't wait to abandon ship and join the throngs of economic immigrants from Bulgaria and Poland. Not one Macedonian I have met realizes the full implications of EU accession and not one of them gives a fig. They all perceive the EU as a "get-rich-quick" scheme.

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BIOGRAPHY

Sam Vaknin is the Editor-in-Chief of Global Politician. He served as Senior Business Correspondent in United Press International (UPI) (2001-3) and Economic Advisor to the Government of the Republic of Macedonia (1999-2002). He co-authored a book about Macedonia's economy with Nikola Gruevski, Macedonia's current Prime Minister. Between 1982-1999 he served as economic and financial advisor to governments and blue-chip firms in Israel, the Balkans, Central Europe, and Africa. In the 1980s he acted as Vice-President for IT, Commodity Analysis, Debt Financing, and Venture Capital of Europe's largest privately-held concerns, NOGA and APROFIM and, later, was co-owner of Israel's largest stockbrokerage, Mikbats-Tesuah.